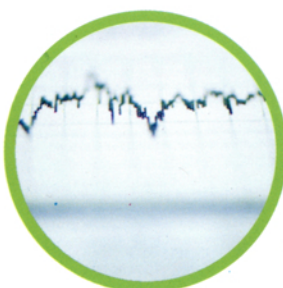




Government of Pakistan  
Ministry of Commerce  
Islamabad



# Strategic Trade Policy Framework 2009-12



**Strategic Trade Policy  
Framework  
2009-12  
August 2009**

**Ministry of Commerce  
Government of Pakistan**

## **FOREWORD**

The Strategic Trade Policy Framework (2009-12) is being announced amid hopes that the world economy may be easing out of a severe recession that has left global trade volumes in a downward spiral. The global recession coupled with domestic problems such as energy crises, high cost of capital and the war on terror compounded Pakistan's difficulties on the economic front. Our Exports for the year 2008-09 decreased to US\$ 17.8 billion, as compared to US\$ 19.1 billion during 2007-08, missing the target of \$22 billion set in Trade Policy 2008-09. In a long time perspective, Pakistan's global share has fallen from 0.20 in 1999 to 0.13 in 2008.

The issues like falling export competitiveness and lack of sophistication and diversification of products and markets stem from structural weaknesses inherent in the economy and must be addressed forthwith. This requires holistic, integrated and consistent policies across the public and private sector. Responding to this need of having a coherent national export competitiveness development programme, we have developed the Strategic Trade Policy Framework 2009-12 (STPF) after extensive consultations and research work, to provide the direction for policy and support interventions by the government, industry, civil society and donors in a coordinated, efficient manner, to help Pakistan achieve sustainable high economic growth through exports. Set in a three year framework, STPF would also ensure continuity of policies.

The STPF comprises six pillars: (i) Supportive Macro policies and services (ii) Enhancing product sophistication level in Pakistan's exports (iii) Enhancing firm level competitiveness (iv) Domestic Commerce reform and development (v) Product and Market Diversification (vi) Making trade work for the sustainable development in Pakistan.

In order to effectively implement different short term and long term trade policy measures, STPF envisions comprehensive and effective implementation, monitoring and evaluation mechanisms, with the Ministry of Commerce assuming a lead role in coordinating activities across different stakeholders. I strongly hope that the Strategic Trade Policy Framework 2009-12 would go a long way in making exports the engine of sustained, equitable economic growth in Pakistan by successfully initiating the much needed structural transformation of Pakistan's exports.

Suleman Ghani  
Secretary Commerce

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## List of Abbreviations & Acronyms

AFP	Agro Food Processing Facilities
ASEAN	Association of Southeast Asian Nations
BSIs	Business Support Institutions
<b>DDA</b>	Doha Development Agenda
DGTO	Directorate General of Trade Organizations
ECOTA	Economic Cooperation Organization Trade Agreement
EEF	Enterprise and Entrepreneur Fund
ENERCON	National Energy Conservation Centre
EPR	Effective Protection Rates
EU	European Union
FBS	Federal Bureau of Statistics
FDI	Foreign Direct Investment
FTAs	Free Trade Agreements
FY	Fiscal Year
GBC	Gujranwala Business Center
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GI	Geographical Indication
GSP	Generalised System of Preferences
ICTs	Information and Communication Technologies
IMU	Implementation Management Unit
IT	Information Technology
LDC	Least Developed Countries
LDDDB	Livestock and Dairy Development Board
MINFA	Ministry of Food & Agriculture
MOC	Ministry of Commerce
MTDF	Medium Term Development Framework
NAFTA	North American Free Trade Agreement
NAMA	Non-Agricultural Market Access
NPR	Nominal Protection Rates
NTBs	Non Tariff Barriers
PAKGAP	Pakistan Good Agricultural Practices
PITAD	Pakistan Institute of Trade and Development
PHDEP	Pakistan Horticulture Development & Export Board
PPMIU	Policy & Project Monitoring and Implementation Unit
R&D	Research and Development
ROW	Rest of the World
ROZs	Re-Construction Opportunity Zones
RTAs	Regional Trade Agreements

SAFTA	South Asian Free Trade Agreement
SBCC	Sialkot Business & Commerce Centre
SEDC	Services Export Development Cell
SMEs	Small and Medium Enterprises
SMEDA	Small and Medium Enterprise Development Authority
SPDC	Sports Industries Development Centre
STPF	Strategic Trade Policy Framework
TBT	Technical Barriers to Trade
TDAP	Trade Development Authority of Pakistan
UL	Underwriters Laboratories
WBIC	Women Business Incubation Center
WTO	World Trade Organization

## **SECTION: I**

### **OVERVIEW OF PAKISTAN'S TRADE AND CASE FOR STPF**

#### **a. Trade Review**

Pakistan's exports during<sup>s</sup> 2008-9 decreased to US\$ 17.8 billion as compared to US\$ 19.1 billion during 2007-08. A target of US\$ 22.2 billion was set in the Trade Policy 2008-09, keeping in view the growth in exports of 13% in the previous year. Export target could not be materialized on account of many internal as well as external factors. On the external account, economic downturn in our major markets i.e. USA and EU, negative travel advisories and buyer's perception of Pakistan as a supplier of low quality products played a significant role. Whereas, on the domestic front, high cost of finance, power outages, worsening law and order situation, decline in foreign investment contributed to poor export performance.

A review of sectoral performance of Pakistan's export profile during 2008-9, reveals that the export of Textiles, accounting for around 54% of Pakistan's total exports, dropped from US\$ 10.6 billion to US\$ 9.6 billion. The major losers in this sector were Readymade Garments, which dropped by 21.7%, Cotton Yarn dropped by 15%, Bed linen dropped by 10.2%, Art Silk & Synthetic Textiles dropped by 22.1% and Cotton Fabrics dropped by 4.0%. The poor performance of all major categories in this sector can be attributed to both price and quantity effects. Textile is a sector which has experienced little or no growth in terms of international trade value during the last few years. Secondly, buyers have become more demanding-requiring more value for money, better quality, shorter delivery times, improved services, enticing designs, lower prices and credit sales among other things. These requirements have proved to be too demanding for textile sector already encumbered with a multitude of productivity and supply side problems. The textile industry is also facing stiff competition from other regional competitors like India, China and Bangladesh.

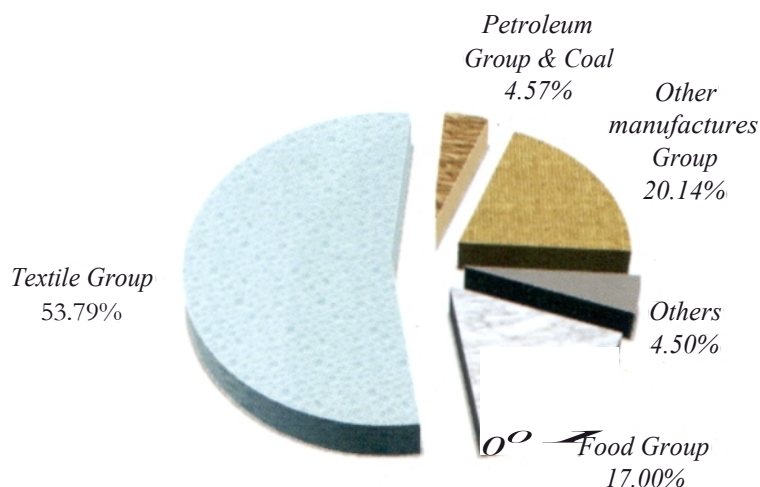
Bangladesh, which is not a cotton producing country, has been able to undercut Pakistan's share due to preferential market access granted by EU and USA on account of it being an LDC.

The exports of finished leather and leather manufacturers also registered a drop of 24.5 %, coming down from US\$ 1.1 billion to US\$ 0.84 billion. Export of leather declined due to many internal as well as external factors. On the demand side, this sector faced stiff competition from China, India and Bangladesh grabbing around one-third of leather export share of Pakistan due to the relief packages announced by their respective governments to combat the global recession. On the domestic front, this sector confronted with non-availability of quality leather, scarcity of specialized leather technicians, lack of R & I) facilities and non- existence of effluent treatment plants.

The export of Rice, however, registered an impressive growth from US\$ 1.84 billion to US\$ 1.99; an increase of 8.2%. This performance can be attributed to a number of factors which inter alia include; a large and expanding market, surge in the international price of rice, which increased on an average by 48.4% last year, business friendly policies of the Government and investment made on plant modernization. Export of engineering goods also registered an increase of 26.1% from US\$ 211.3 to US\$ 266.4 million, the major contributors being the specialized machinery, transport equipment and electric fans. The export of jewelry also rose from US\$ 213.4 million to US\$ 288.4 million, registering an increase of 35%. FigureI below indicates share of major sectors in the total exports of Pakistan.



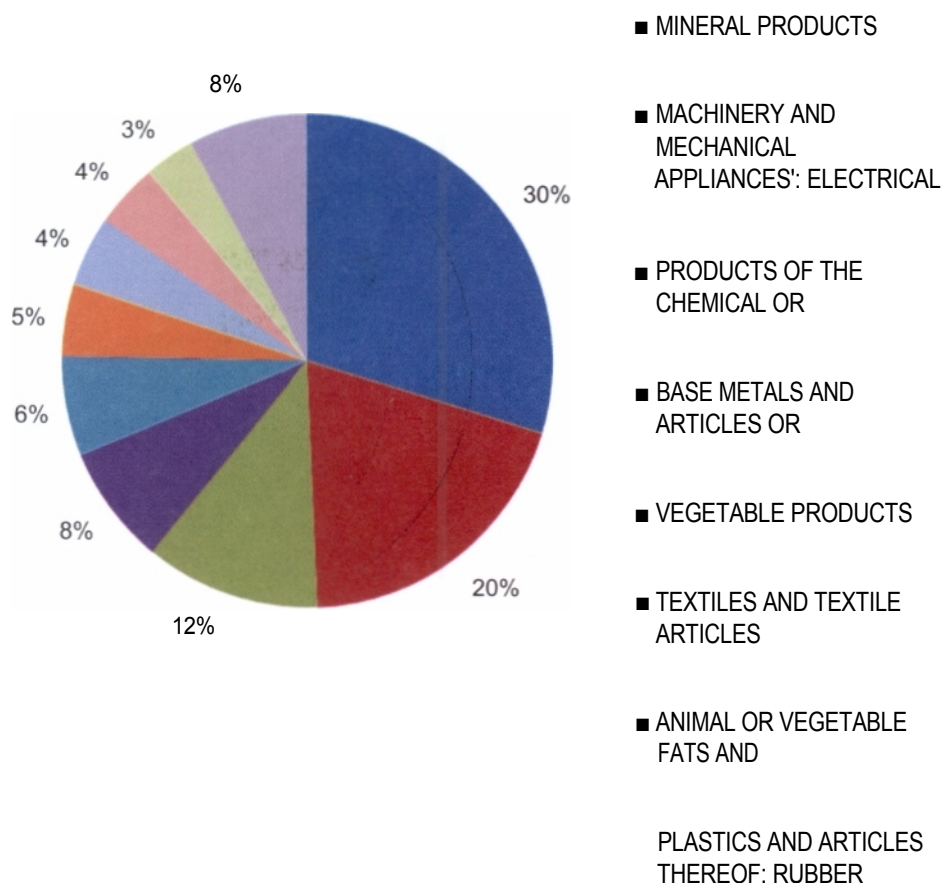
**Figure 1: Exports of Major Sectors of Pakistan (In Percentage) In 2008-09**



**Source: FBS/ MOC Calculations**

In the year 2008-09 Pakistan's imports stood at US \$34.8 billion, as compared to US \$40 billion in FY 07-08, showing a decline of 13%. The fall in imports also led to fall in the trade fell to US \$17.04 billion in the current year from \$ 20 billion in the previous year. The fall in imports can be attributed to lower international prices for our major import products i.e. oil, food and fertilizers. Imports also declined due to a falling demand at home. Most of the major product categories comprising Pakistan's import basket witnessed a decline or a moderate increase. The food group witnessed a fall in import value by 3.1%, Machinery group saw a growth of only 0.5%. Petroleum imports fell by 7.6%, Consumer durables imports fell by 16.4%, Fertilizer imports fell by 40.4%, Transport imports by 42 % and Telecom imports fell by 54.8%.

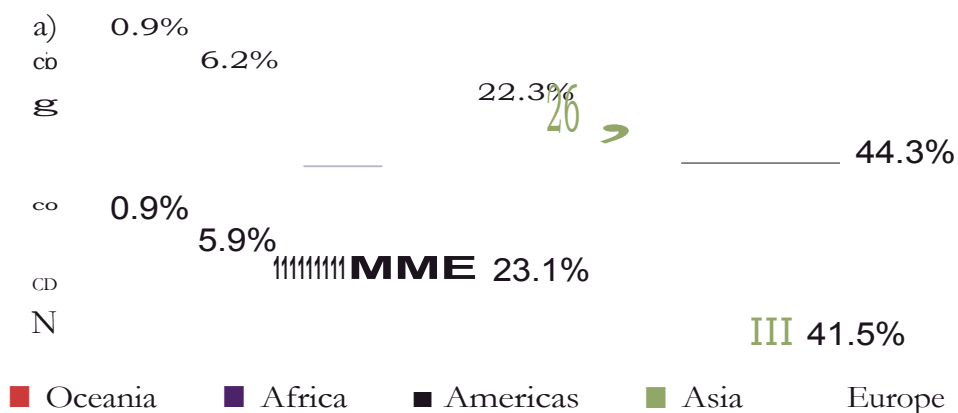
Figure II: Composition of Imports of Pakistan (In Percentage) in 2008-09



Source: FBS/ MOC Calculations

During the year 2008-9, trend of Pakistan's export of major commodities remained more or less the same, being concentrated in five categories namely, cotton manufacture, leather, rice, synthetic textiles, and sports goods. These five categories account for 73.5% of total exports of Pakistan. In addition to concentration of exports to a limited range of products, Pakistan's exports are destined primarily to EU and USA, which account for 23% and 18.78 % of Pakistan's total exports respectively. Figure-III indicates the share of different regions in Pakistan's export profile which suggests that it remained more or less the same except in the Asian region where exports share slightly increased from 41.5% to 44.3%.

**Figure III: Region Wise Exports of Pakistan (In Percentage)**



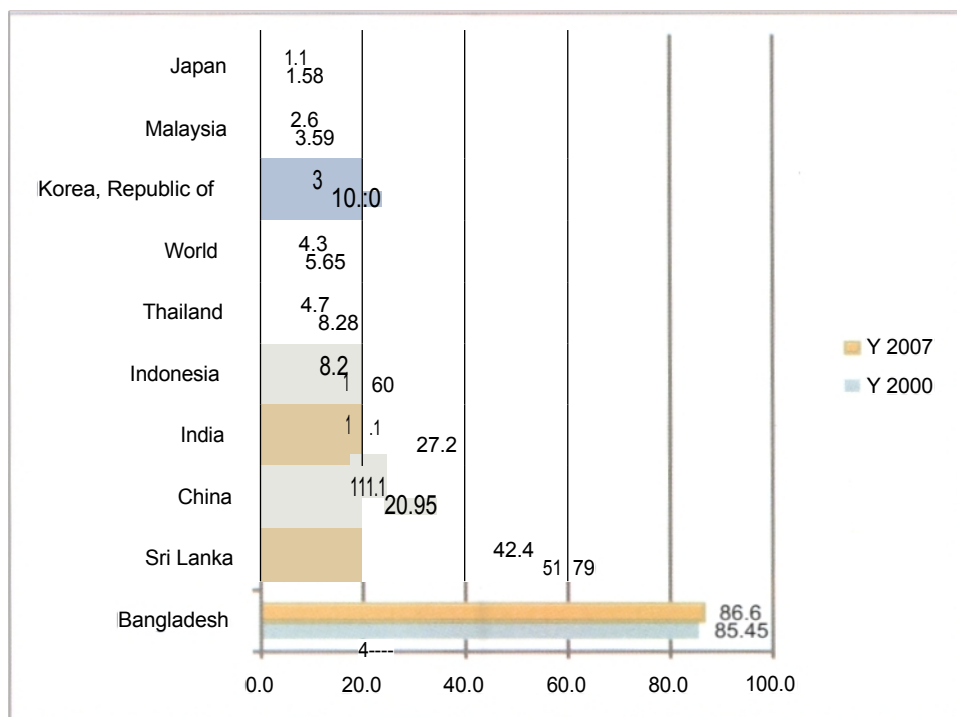
Source: FBS/MOC calculations

Ordinarily, the global market share is a good indicator of the export competitiveness of a country. Pakistan's share in the global market, according to WTO data, has declined by more than 1/3 to 0.13% in 2008 from 0.20 % in 1999. During the period 2008-9, Pakistan's exports were beset by the traditional supply side problems such as low productivity, lack of scale and poor trade support services. However, this year was particularly challenging due to global down turn, oil and food price shocks, energy crisis, very high cost of capital and law and order problems.

During the last few decades, the global trade has undergone a major change in traded volumes, product composition and geography of trade. According to WTO, the world merchandise exports stood at US\$ 13,619 billion in 2007 whereas it was US\$ 7,375 billion in 2003 and US\$ 3,675 billion in 1993. A salient feature of this change has been a gradual increase in the share of non-textile manufactured exports at the global level. During 2007 world exports of Textile and Clothing were recorded as US\$ 238 billion and US\$ 345 billion respectively. Despite an impressive growth in world exports of Textiles and Clothing since 2000, the share of Textiles and Clothing in world trade have gone down due to relatively higher growth in volumes of other merchandise exports. Currently, the share of Textiles stands at around 1.7% in world merchandise exports whereas share of Clothing stands at around 2.5%.

But in case of Pakistan, the share of non-textile manufactured exports has gone down from an already low figure of US \$ 5.83 billion (25.08%) in 2007-08 to US \$ 3.12 billion in 2008-09. At the same time, our competitor economies, particularly in Asia, have significantly enhanced their share in non-textile manufactured, as shown in Figure I V.

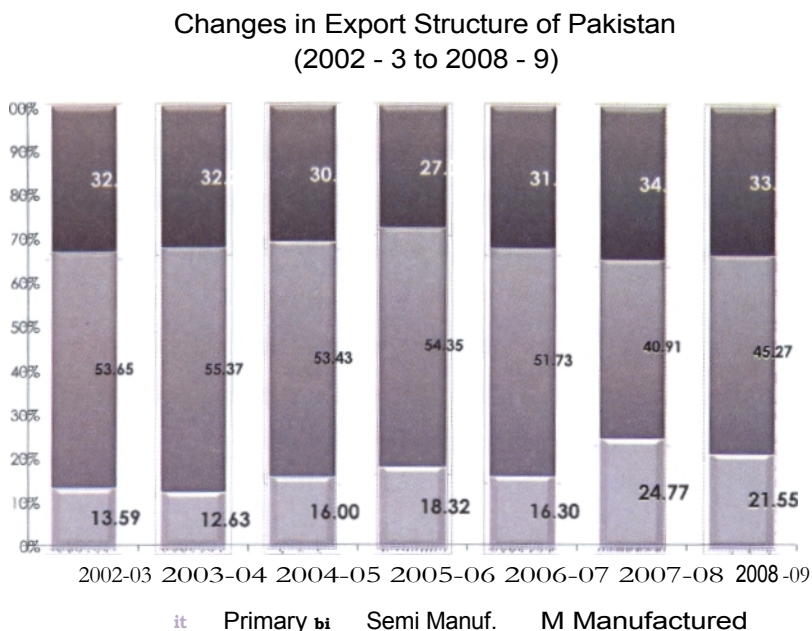
**Figure IV: Textile Exports as a Percentage of Economy's Total Exports**



**Source: WTO 2008**

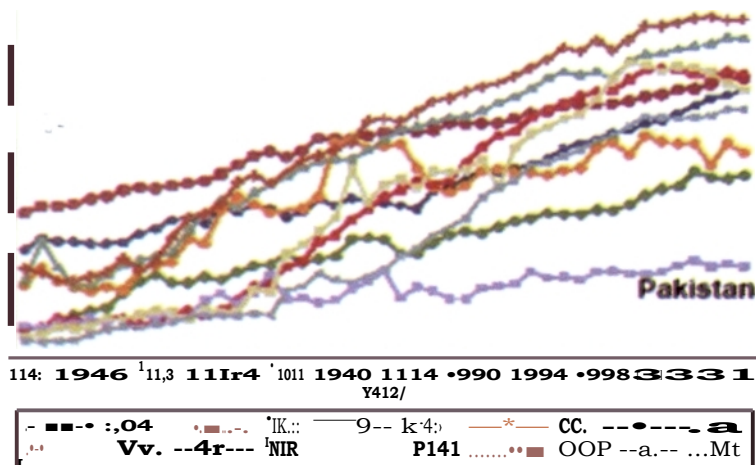
Within the Textile sector, broadly divided into Textiles and Clothing, the rate of growth in Clothing has been much higher than Textiles in the international market. Pakistan, though managing to maintain its global market share in Textiles to an extent, has been slow in benefitting from the expansion in Clothing sector. In case of Pakistan, the shares of primary, semi-manufactured and finished products exports during the last seven years have been rather stagnant as indicated in Figure-V below signifying slow movements towards sophistication through technology and innovation.

Figure V: **Sophistication Share of Pakistani Exports 2003-09**



The importance of sophisticated manufacturing exports for sustained economic growth has been stressed over time by cross-country experience. Relatively stable export composition of Pakistan indicates a slow structural transformation of our productive capabilities. On the contrary, many economies in the region have been successful in effecting a structural transformation as shown in the Figure VI.

Figure VI: Pakistan's Low Degree of Structural Transformation and Diversification



Pakistan embraced the structural reforms of 80's and integration in the global trading system through WTO with the hope that its economy would be able to benefit from the expansion of international trade. The falling trade to GDP ratio and unsatisfactory standing in international trade ranking make it clear that we missed an important opportunity of rapid economic growth through exports, which has happened in case of many emerging economics. The principle reason for this growing disconnect between the evolving global market structure and Pakistan's export performance is the ineffectiveness of government's policies to stem the erosion of the competitiveness of Pakistan's exports and the country's weakness in diversifying its product and market mix.

The Ministry of Commerce feels that Pakistan benefited to an extent from expanding global opportunities, enhanced further through Free Trade Agreements (FTAs) with markets like China, Malaysia and Sri Lanka, but our falling productive capacities did not let us benefit from these hard earned opportunities. The nations which have achieved more sophistication in their export mix have managed to derive more benefits from their resource endowments by better usage of the efficiency enhancers such as science & technology and well functioning organizations providing public goods for enhancing the capabilities. Transition of Pakistan economy from a predominantly factor driven economy to an efficiency driven and knowledge-based economy would remain an unfulfilled dream, if the drivers of efficiency such as higher education, training and technological readiness remain below par as compared to those of our competitors. In fact, the efforts undertaken by the Ministry Commerce to improve the quality of Pakistan's exports have been constrained due to a dissonance between export promotion efforts and efforts aimed at the development of science and technology in Pakistan.

Pakistan can no longer afford to ignore the issue of its export competitiveness, sophistication of products and diversification of products and markets as the unsustainable trade deficit can have serious economy

wide repercussions. Boostin<sup>g</sup> export competitiveness, moving up the sophistication ladder and improving business processes is a national challenge and needs a national response, both by the State as well as by the industry. We need to revisit our traditional ways of producing and exporting and come up with suitable policies to fill the gaps between the opportunities in a globalized market place and our production capabilities.

**b. Structural Trade Policy Framework**

Realizing the need for developing and effectively implementing a national export competitiveness programme, the Ministry of Commerce has developed a three year Strategic Trade Policy Framework (STPF) 2009-12. The overall objective of the Strategic Trade Policy Framework is to achieve sustainable high economic growth through exports with the help of policy and support interventions by the government, industry, civil society and donors. This will be a medium term plan acting as a catalyst in the revival of domestic commerce and international trade in Pakistan, with the precise objective of bringing about a structural transformation in Pakistan's exports.

Traditionally, the competitiveness refers to the capacity of a firm to produce, distribute and sell products and services more effectively than is done by the relevant competitors. But the governments indirectly help firms in becoming more competitive by providing better trade facilitation, improving business processes and reducing anti export biases in its policies. Recent international experience in export competitiveness suggests that the quality of national institutions and the policies and practices in organizing and developing Domestic Commerce are important pre-requisites for the success of competitiveness development strategies of firms. In other words, the governments play a crucial role in enhancing the export competitiveness. The conventional Trade Policy would try to improve the competitiveness by addressing the external operating environment beyond national borders. The dynamics of the present global competitive trading system has enlarged the scope of Trade Policy. Gone are the days of pursuing traditional comparative advantage based policies, when states did not do much to impact the content and direction of exports.

The contemporary Trade Policy needs to deploy resources to the drivers and enablers of competitiveness behind the borders too. A review of Pakistan's trade policies for the last few decades would reveal that our policies lacked the wherewithal and sense of direction required to meet the challenges of changing paradigm of International trade.

The Ministry of Commerce has conceived the Strategic Trade Policy Framework to respond to the emerging challenges to our export competitiveness. We hope that a successful implementation of STPF would enable Pakistani firms to produce and export more sophisticated and diversified range of products, resulting also in an increase in wages, for the sectors ready to embrace the global competitive environment.

The Pillars of STPF are as follows:

1. Supportive Macro Policies and Services
2. Enhancing Product Sophistication **level in Pakistan's Exports**
3. Enhancing Firm level Competitiveness
4. Domestic Commerce Reform and Development
5. Product and Market Diversification
6. Making Trade Work for the Sustainable Development in Pakistan.

The old constraints and emerging challenges need a combination of short term and medium term measures. Therefore the STPF is projected in a three year time frame, which would give the flexibility to leverage short term with the medium term interventions. This would also give sufficient time to suitably plan activities, develop effective implementation mechanisms and develop and carry out evaluation of the programs contributing to the overall objective of increasing exports.

The global experience has shown that the competitiveness development involves many policy sectors. Particularly, Fiscal and Monetary Policies,



the Planning and Development policies and process, Investment Policies, Innovation Policy and Industrial policies of a country can impact upon different dimensions of export competitiveness. In order to purposefully build strong competitive advantage on top of our traditional comparative advantage, the functional linkages between the Ministry of Commerce and other Ministries and Departments like Finance, Planning, Industries, Agriculture, Investment, Science and Technology and provincial governments concerned should be much more stronger and productive.

With the help of all the stakeholders, STPF aims at building a more efficient National Competitiveness Governance System with the vision to minimize the competitiveness gap between successful international firms and Pakistani firms under the guidance of Federal Export Promotion Board, headed by the Prime Minister of Pakistan.

By setting up the Export Investment Support Fund in 2009-10 budget, the Government of Pakistan has allocated sizeable funds to support Trade Policy measures. In a country like Pakistan, the fiscal constraints necessitate a strategic prioritization of sectors and markets in the allocation of funds to better manage the trade offs in effecting the structural transformation in the economy, facing the global downturn and addressing imperfections in the domestic market. As the Strategic Trade Policy Framework does not simply deal with the offshore market development and promotion, but encompasses longer-term onshore challenges of establishing a national competitiveness environment and developing more competitive firms, industries and markets at home, the STPF provides a long term strategic direction for financing competitiveness development in Pakistan with the objectives of:

1. Moving away from comparative advantage to competitive advantage based policies
2. Moving away from subsidies to the provision of 'public goods' for enhancing export competitiveness
3. Helping Pakistan go up the sophistication ladder.

The Ministry of Commerce would work closely with the Ministries of

Finance and Planning Commission of Pakistan to ensure that the export competitiveness related programs and initiatives get more investment in the coming years to realize these objectives. A new strategic framework of a national export competitiveness development would mean little if the institutions entrusted with its implementation perform below par. The Ministry is aware of the organizational challenge of the STPF 2009-12 and would accord high priority to institutional reform of the principal wings and affiliates of the Ministry of Commerce.

## **SECTION II:**

### **PILLARS OF STRATEGIC TRADE POLICY FRAMEWORK**

#### **1. Supportive Macro Policies and Services**

##### **a. Reducing Anti-Export Bias in Tariff Policy**

Wide ranging structural reforms aimed at liberalization, privatization and de-regulation since late 80s' brought about a marked shift in dependence from trade to domestic taxes and removal of protective duties/taxes on industry to foster competition and increase exports. However, within the ambit of fiscal policy, the existing tariff structure and the concessionary tariff regime have anti-export biases, as it accords identical tariff treatment to:

- i) Import substitution industries vis-a-vis export oriented industries.
- ii) Low value added industries vis-à-vis high value added industries.
- iii) Low-tech industries vis-à-vis high tech industries.
- iv) Labour intensive industries vis-à-vis capital intensive industries.
- v) Small scale industries vis-à-vis large scale industries.

In the given scenario, the need to formulate a long term tariff policy can hardly be over-emphasized. A rational tariff policy and structure with short and long term tariff measures aimed at making the industry competitive and moving up the sophistication ladder is the priority objective of STPF 2009-12. There is a need for devising such tariff policy which aims at removing anti export biases. It should help Pakistan come up with a much more effective response, in the context of reduction of tariff and binding due to the expected conclusion of DDA and bilateral trade negotiations. enabling the country to benefit from the next round of trade liberalization. The Ministry of Commerce, which deals with treaties, agreements. protocols and conventions with other countries and international agencies having a bearing on trade and commerce under the Rules of Business, would re-

design the National Tariff Policy to realize the following objectives:

- i) Withdrawal of protection from inefficient, internationally non-competitive and government dependent industry.
- ii) Minimization of taxation at investment stage to reduce the cost of doing business.
- iii) Rationalization of Effective Protection Rates (EPR) and Nominal Protection Rates (NPR) currently ranging between extreme negative protection to excessive positive protection levels.
- iv) Review and revise the tariff protection criterion for taking into account sophistication, value addition and diversification of export items and announcement of special incentives for the industry in this regard.

#### **b. Monetary Policy**

Another crucial component of macro policies is monetary policy. Interest costs specifically in times of tight monetary policy as being pursued since last one year, can raise the cost of production and thereby affect the competitiveness of exports. Though interest policy at macro level is more closely aligned with status of aggregate demand, inflation, budget deficit and exchange rate policy, at times remains an important tool for dampening the cost of production. In case of export industries, the scheme of export re-financing and sectoral credit allocation parameters need to be re-designed, finely tuned and re-set to focus on high value sectors, more sophisticated export products and non-traditional items.

#### **c. Exchange Rate Policy**

Stable exchange rate is the first best policy to promote exports and manage imports. For Pakistan, it is predicated on stable internal and external macro environment that includes medium-term stability in oil prices, food commodity prices, predictable flow of FDI and foreign assistance, exportable surplus and steadily growing world demand. Positive or negative shocks in any of these elements of macro environment can impact on the nominal and real effective exchange rate that in turn determines the profitability of exports versus imports. In a regime of managed float, it is essential for promoting exports and controlling speculative imports, that

exchange rate trends although mostly governed by free market mechanism, are managed by the State Bank to avoid wild fluctuations and promote orderly and smooth adjustments to reflect and incorporate the changing macro environment.

#### **d. Effective Trade Facilitation**

The Ministry realizes that the transaction costs at and behind the border in Pakistan impact negatively on the competitiveness of Pakistan's exports. The benefits of reduced costs could actually be far greater in comparison to what is envisaged from greater market access and removal of tariff and non-tariff barriers. The latest studies suggest that the goods shipped from developing countries have comparatively high transaction costs that can be as much as two to three times the transaction costs in developed countries and account for as much as three times the average tariff rate applied to industrial country imports since the Post-Uruguay Round. The Ministry feels that all the stakeholders in Trade Facilitation need to wake up to this reality and face this common challenge. In Pakistan an added challenge is that the transaction costs to import are significantly lower than exportation. Ministry would undertake and coordinate all the necessary measures to facilitate the provision of lower cost, more efficient and reliable trade support services in promoting our exports, without which Pakistan would not be able to reap the benefits of expanded exports base, foreign investment and overall economic growth. We need to urgently look at policies and processes that underpin the logistic and trade facilitation.

The Ministry of Commerce approved the National Transport and Trade facilitation Strategy in 2008. Trade Policy 2009-12 includes many measures aimed at procedural efficiencies and trade facilitation. The Ministry would ensure an effective implementation of National Transport & Trade Facilitation Strategy and other reform efforts aimed at trade facilitation to increase the ranking of Pakistan at the global competitiveness index.

Trade Development Authority of Pakistan, (TDAP) as the national trade promotion organization, undertakes a large number of activities to promote

Pakistan's exports, in most of the cases with the help of Business Support Institutions in Pakistan and Commercial Sections of Pakistani Missions abroad. There is a need to enhance its efficacy so that the Pakistani exporters are not at a disadvantage as compared to their competitors as far as governmental trade promotion efforts are concerned. Trade Development Authority of Pakistan is undergoing institutional reform at present. The Ministry would help 'MAP and other BSIs become vibrant, dynamic and world class trade promotion organizations.

In order to facilitate local firms to have international presence and to penetrate in the international market which would thereby increase their profitability, following initiatives were announced in the last year's Trade Policy 2008-09

- Support for Opening Exporters Offices Abroad
- Support for Opening Retail Sales Outlets Abroad
- Warehousing Scheme abroad
- 100% Subsidy for Compliance Certification

In the current years Trade Policy, it has been decided that the above given initiatives would be continued.

It has been decided that in order to help trade and industry to interface with the office of Directorate General of Trade Organizations (DGTO) at their doorstep, four Regional offices at Karachi, Lahore, Quetta & Peshawar would be established.

#### **e. Improving Business Processes**

The ability to re-engineer the business processes, where business comes across the government agencies, has started playing an increasingly important role in growing global competition. For a country like Pakistan, which needs to quickly enhance its manufacturing and firm level efficiencies, it is necessary that we revamp, restructure and redefine these business processes in line with international best practices in order to enhance productivity and improve competitiveness. Within three months of the announcement of the Strategic Trade Policy Framework 2009-12, the Ministry of Commerce would critically look at those business processes

competitively. The efficient firms all over the world are giving special attention to productivity through training, adoption of more efficient technology, redefining process flows and comprehensive application of IT.

Similarly, the development of middle and senior management pool has become a special focus as a key success factor, enabling the exporting companies to keep pace with growth, confront challenges of being creative, be more responsive and ensure competitiveness. STPF would help integrate the best practices through AN Enterprise and Entrepreneur Development Programme, which would leverage other programs of Entrepreneurial skill development, involving the private sector and donors more actively. To support this Programme, the Ministry of Commerce would set up an Enterprise and Entrepreneur Fund (EEF) for enhancing the firm management capabilities in ten sectors chosen to push Pakistan higher on the sophistication ladder.

#### **4. Domestic Commerce Reform and Development**

Promotion of Domestic Commerce as a policy matter needs a major shift where supply and demand mechanisms would support entrepreneur development, consumer protection along with protection of domestic industries and facilitating domestic commerce to effectively contribute to value addition, sophistication and economic growth. The Domestic Commerce Wing, set up at the Ministry of Commerce has identified the following key areas for the reform and development of Domestic Commerce:

1. Retail and Wholesale Trade, which is the front end of Domestic Commerce.
2. Storage and warehousing.
3. The transport industry, which links the whole supply chain.
4. The overall regulatory environment, including the extent of the policy related trade distortions and the level of subsidies and incentives, which impact on the overall level of competitiveness and potential for growth.

- s. Promotion of modern business practices such as standardization of quality, weights and measures and adoption of modern accountancy, record keeping and insurance services.
6. Modernizing of those taxation practices which act as a barrier for the promotion of Domestic Commerce.
7. Improving the contract enforcement and repudiation issues, which distort the business environment in a variety of Ways leading firms to depend on short term contracts and spot deals, tbrcing, them into backward or forward integration, restricting business to fewer buyers and/or suppliers, making them rely on family labour, and forcing businesses to divide rather than grow.
8. Promotion of copyright protection and intellectual property rights.
9. Promoting small businesses access to formal sector financial institutions.
10. Development of tertiary services for developing firm level capacity vis-à-vis modernizing management practices, skill development and business process improvement.
11. Avoid patronizing the undocumented informal sector at the cost of formal sector.

Many of the above issues are being attended by different government agencies. The Ministry of Commerce would leverage their activities and work to strengthen these individual reform and development efforts alongside the efforts to enhance the export competitiveness of Pakistan through an holistic Domestic Commerce Reform and Development Programme, which would be a mix of analytical work, initiation and coordination of policy interventions and initiatives to reform and develop



the Domestic Commerce and monitoring of different indicators of the performance of Domestic Commerce.

## **5. Product and Market Diversification**

Export diversification is widely recognized as a positive trade policy objective in sustaining economic growth. Diversification makes countries less vulnerable to adverse terms of trade shocks by stabilizing export revenues, makes it easier to channelize positive terms of trade in to growth, knowledge spillovers, and increasing returns to scale. Many developing countries have pursued product diversification as a deliberate growth strategy to insulate themselves from the sharp and unexpected changes in their terms of trade and by extension to stabilize domestic income and employment. They have placed greater emphasis on producing manufactures as well as securing new markets for their products.

There are many forms of diversification which include;

- (i) Expanding the range of markets into which existing products are sold (geographical diversification).
- (ii) Up-grading quality of existing products including agriculture exports and widening the base of exports.
- (iii) Taking advantage of opportunities to expand exports of services.

All three turn out to be potentially very important whereas in the case of Pakistan they have largely remained unexploited.

A review of Pakistan's export profile would reveal that Pakistan's exports are confined to seven major markets in seven core categories. There is an urgent need to undertake aggressive strategy to expand and deepen our markets and broaden narrow base of our exports. The Strategic Trade Policy Framework 2009-12 aims at developing coherent, comprehensive initiatives to realize the twin objectives of product and market diversification as detailed in Sections II and III. To increase share of non-traditional products in the export product range of Pakistan, it has been decided to continue Cluster Development programs announced in the

previous year's Trade Policy.

## **6. Making Trade Work for the Sustainable Development in Pakistan**

The objective of the enhancement of export competitiveness is to make exports an engine of growth. It is equally important to ensure that this growth does not come at the cost of environment, exploitation of marginalized sections in the society or SMEs. The strategies of competitiveness enhancement need to be closely aligned with the legitimate concerns of sustainable development so that the future generations could also benefit from the fruits of export enhancement. The STPF seeks to contribute to the sustainable development in Pakistan through the following means:

### **a. Making Trade Reduce Poverty**

The government is aware of the need to address the possible negative distributional aspects of globalization, manifesting in the form of unemployment, wage decrease of unskilled labour, informalization of labour etc. Ignoring these factors could reduce the benefits of globalization and unleash protectionist sentiments and resentment against the free market regime. To strengthen the role of Strategic Trade Policy Framework 2009-12, as a tool of sustainable development, we would align it closely with the recently approved Social Protection Policy of Pakistan as better social protection policies and stable labour markets are characterized by more investments by the industry on labour skilling and better labour productivity.

The Ministry is aware that the protection and promotion of Geographical Indication products is also an effective way to link international trade with poverty reduction as most of the GI products in Pakistan are made by cottage industry or poor, rural households. The Ministry would expedite the promulgation of GI Law and allocate sufficient resources to assist the producer organizations to benefit from opportunities in the international market.

## **h. Consolidating Gender Sensitive Trade Policies**

It is recognized world over that women have exceptional multi-tasking skills, endurance, dexterity and creativity. It is becoming increasingly important to create and maintain diversity at workplace. The economy can draw immense benefits if these innate skills can be suitably harnessed and mobilized, leading to the empowerment of women. At present, there are a number of initiatives underway to increase women's role in Pakistan's economy. Trade Policy 2009-12, which has been designed as gender sensitive trade policy, seeks to leverage many such initiatives. We recognize that the trade policies affect men and women differently as more often than not women are constrained by structural gender inequalities such as low skill level, weak ability to negotiate wages or work conditions etc.

In Pakistan, women are present more in lower-skilled and low-paying sectors, especially in the textile and garment industries. With the increasing trend of female education in higher education, it is important that women are represented more at the managerial, supervisory and high-skill levels. Though the women have started playing a larger role in Pakistan's export sector than ever before, yet we are far from the other Muslim countries such as Malaysia and Bangladesh, who have tremendously benefited from the diverse and creative expertise of women in sectors such as garments, shoes, jewellery, electronics, horticulture, handicrafts and in services sectors.

While implementing Strategic Trade Policy Framework 2009-12, the government would take a number of gender-sensitive actions to enhance the positive contribution of Pakistani women in Pakistan's international trade such as special incentives to encourage women in export-oriented services sector i.e. designing, cultural industries, skill development programs in women intensive export sectors, access to credit for women-managed SMEs in export sectors, protection and promotion of women intensive GI products, increasing the participation of women in international exhibition and delegations and steps to encourage independent and good quality gender-oriented research and analysis on how to enhance women's trade capabilities and to study the impact of gender-based barriers to market access and economic costs of gender

inequality and the consequent trade-offs.

### **c. Promoting SMEs Exports**

The Ministry of Commerce recognizes the fact that the large firms and conglomerates play an important part in developing new products and markets as they can produce at sufficiently large scale with high quality. Scaling is becoming very important in order to meet the requirements of large buyers and the government would work with the private sector to enable the firms for scaling up their capabilities. However, in a country like Pakistan, with such a large number of SMEs there is a need to devise policies and programs aiming at the integration of SMEs into global value chains.

In the context of Medium Term Development Framework (MTDF) 2005-10 of the Government of Pakistan which stressed upon strategic shift of government's assistance to infrastructure development and establishing Common Facility Centers in order to enhance the productivity and exports of SME sector, many projects are under way to increase the global competitiveness of SME sector such as the establishment of Agro Food Processing Facilities (AFP) at Multan, Gujranwala Business Center (GBC), Sialkot Business & Commerce Centre (SBCC), Sports Industries Development Centre (SIDC) Sialkot, Women Business Incubation Center (WBIC), Lahore. A few sector-specific development companies have also been established by the Ministry of Industries that aim at upgrading production capabilities i.e. Pakistan Dairy Development Company, Pakistan Gems and Jewellery Development Company, Pakistan Stone Development Company and Furniture Sector Development Company. There is a need to leverage the growth competitiveness activities of these companies with the activities and interventions being initiated through the STPF so that an improved performance by these sectors can increase the manufactured value added in Pakistan.

The Ministry of Commerce fully supports the objectives of National SME Policy 2007 and would join hands with SMEDA's Policy & Project Implementation, Monitoring & Evaluation Unit (PPMIU) to make it a success. We have included many initiatives aimed at helping the SME

exporters directly and indirectly. One such measure is the earmarking of significant funds from Export Investment Support Fund for a new generation of SMEs driven by efficiency and innovation, in line with our declared focus on 'export competitiveness of Pakistan' through SMEs. We hope that with a right mix of policies and incentives, SMEs can become the main tools of 'value addition' and 'sophistication' in Pakistan.

#### **d. Greening of the Export Sector**

Being aware of the importance of the greening of the economy in the coming days, the Ministry of Commerce would leverage the linkages between technology up-gradation/replacement and greening of manufacturing in Pakistan by supporting the energy efficient and carbon neutral technologies and equipments in high value sectors. A Green Technologies Fund is being set up to give a big boost to technology based competitiveness in the manufacturing sector for exports, which would incentivize the usage of Energy efficient and environment friendly equipment through tax and credit incentives with the help of ENERCON and other stakeholders. According to an estimate, the Energy efficiency of the boilers being used by our industry can be reduced by 30 % thereby reducing the cost of production significantly. Service providers for conversion of boilers are available but are reluctant to come to Pakistan. To Encourage the conversion of boilers for increasing efficiency, the government would underwrite the agreements between the service providers and the industry.

### **SECTION III:**

## **PRODUCT AND MARKET CONSOLIDATION AND DIVERSIFICATION BY ENHANCING SECTORAL COMPETITIVENESS**

The Ministry of Commerce is very well aware of the supply side constraints for the export sectors and has provided a number of measures for providing an immediate relief to the Industry such as the availability of low cost capital, reliable power supply and full insurance cover to enable importers to visit Pakistan. As a provider of 'public goods' to enable Pakistan export more, a number of new initiatives have been provided. Recognizing the need of reducing the cost of capital, it has been decided to create a fund to hedge mark-up rate hikes. The electricity shortage is an irrefutable fact and is adversely affecting industrial productivity. To increase the quantum of supply, Electricity Distribution Companies (DISCOs) being bodies corporate would enter into agreements with clusters of industries whereby electricity is supplied at mutually agreed times. The agreements should have punitive and legally enforceable compensation clauses; the compensation could be in the form of electricity charges credit etc. and should be underwritten by the government.

Considering deteriorating law and order situation, inspectors and sourcing agents of overseas buyers are reluctant to travel to Pakistan and the exporters have to meet them in other countries which increase the cost of doing business. To address this concern, a scheme is being introduced for compensating the buyers for additional premium paid/payable for period of stay in Pakistan. Furthermore, it has been found out that extra cost on inland transportation erodes export competitiveness of a range of developmental products. To enhance competitiveness of those sectors, a scheme is being launched to compensate inland freight cost to exporters of cement, light engineering, leather garments, furniture, soda ash, hydrogen peroxide, caustic soda, sanitary wares including tiles and finished marble/ granite/ onyx products.

Exporters are forced to export indirect taxes, estimated to be around 9% of t

he cost of production. To offset the burden of taxes, interim relief to fourteen sectors in shape of additional duty drawback @1% of export value would be provided. The sectors are tents & canvas, electric machinery, carpets, rugs and mats, sports goods, footwear, surgical/ medical/ veterinary/ beauty care instruments, cutlery, onyx products, electric fans, furniture, auto parts, handicrafts, jewelry and pharmaceuticals. On the basis of suggestions by the industry and scientific research. the Ministry intends to introduce many more initiatives to overcome the supply side constraints and meet market requirements as well as help Pakistan's export sectors save themselves from the potential risks in the coming days due to any change in the global environment of trade or as a result of negative trade strategies of the competitors.

In addition to our traditional markets, Strategic Trade Policy Framework 2009-12 aims at significantly increasing our market share in emerging Asian economies. In the light of the proposed structural transformation in STPF, comprehensive plans for the priority sectors would be finalized and launched in consultation with all the stakeholders within three months of the presentation of STPF to address the medium and long term objectives of product and market diversification of STPF for China, US, EU, Malaysia and Sri Lanka.

With a view to effect the structural transformation from low value exporter to high value exporter, the sectors below would get more policy and development support in the first instance during the next three years. The Ministry of Commerce have announced support initiatives for the major sectors in the Trade Policy 2009-12. List of proposed measures is Annexed. In the light of the strategic thrust of the STPF of providing public goods instead of subsidies, special efforts would be undertaken to significantly enhance share of these sectors in Pakistan's export mix and in the global market. The strategic significance of these sectors is given below. The Ministry of Commerce would help develop detailed sectoral export development plans, with clearly defined indicators for competitiveness development for each sector. with the relevant sectoral/line Ministries and other relevant organizations both in the public and private sectors.

#### a. **Textiles and Clothing**

World trade in textiles and clothing has witnessed high growth and has undergone a series of structural changes around the globe since 2000 onwards in anticipation of non-quota regime from 2005. Pakistan also invested over US\$ 5 billion during 1999 to 2004 and industry geared up for market openness by improving its competitiveness. The textile sector i.e., spinning, weaving, bed linen and toweling sectors performed fairly well and even increased its global share slightly. But Pakistan's performance in the faster growing clothing sector could not be very satisfactory.

Pakistan managed to increase its world share of textiles exports from 2.9% in 2000 to 3.1% in 2007 with an average annual increase of 7% during the same period. However, Pakistan could barely maintain its world share of clothing exports at 1.1% from 2000 to 2007, with an average annual growth of 9%. Meanwhile, many competing countries like China, Bangladesh, Vietnam and Turkey managed much higher growth rates in clothing exports during post quota period due to enhanced competitiveness, favorable market access arrangements and better positioned supply chain advantages.

Since 2007, our exports as well as our market share have gone down. Pakistan has to embrace structural changes in its supply chain to regain the eroding competitiveness both in textiles and clothing sectors. Pakistan needs to address its weakened and narrow based product and market mix to deepen its product coverage and enlarge its market reach for ensuring sustainable and comparable growth in the years ahead. As the global markets return to normalcy after due process of recovery and consolidation in near future, Pakistan can only make a progressive difference with sweeping structural changes like enhancing economies of scale, productivity enhancement through process reengineering, improve product coverage, increase in value addition and market diversification. in addition to other necessary improvements. The textiles value chain still remains the single largest contributor to Pakistan's exports, with a share of over 50% with strong backward linkages. If our competitors continue



enhancing their world market share, our textiles and clothing sectors would face an uphill task to reverse the negative growth of last year to a positive long term growth.

Recognizing the importance of the sector and to provide a foundation for sustainable growth, various initiatives are being planned through a separate and first ever Textiles Policy. The major thrust of the Textiles Policy is to enhance domestic capabilities and capacities for efficient use of resources through skills development, technology up gradation and provision of infrastructural facilities. Measures are also envisaged for diversification of Fiber usage and mix. The Textile Policy takes a holistic approach and contains short-term and long-term measures to support the textiles and clothing manufacturers overcome the current problems created by the global down turn and equip them with necessary ingredients to meet the growing competitiveness challenges of the future.

The Strategic Trade Policy Framework would leverage the Textile Policy through its diverse measures and policies directly and indirectly. The Ministry of Commerce would lend its support to the Ministry of Textiles towards an efficient implementation of Textile Policy. In this regards, the following Initiatives would be given high priority by STPF among many other initiatives, which Ministry of Commerce hopes to develop and implement with the help of Ministry of Textiles and other stakeholders:

- **Promotion of new investment and modernization of machinery.**
- For diversification of export mix, custom duty may be zero rated on import of Man Made Fibers other than Polyester Staple Fiber.
- Customs duty on import of sizing chemicals may be withdrawn.
- Establishment of warehousing in major markets, requiring direct to Store Delivery.
- Brand Development Program, to encourage the establishment of domestic and international brands.
- Rationalization of tariff on the principle of cascading to provide the exporting industry with an environment which supports manufacturing rather than trading.

- Initiatives for greater market access, developing and enlarging acceptability of Pakistani textiles and clothing in niche markets and diversification of exports to newer destinations.
- Initiatives to promote more effective holding of local and foreign exhibitions and meaningful participation.

#### **h. Leather**

The global market size of leather and leather products is around US\$ 100 billion. Pakistan exported leather and leather products worth US\$ 1.25 billion during the year 2007-08 which was 1.29% of world trade. However, the exports of leather sector declined almost by a quarter during the year 2008-09.

Leather sector contributes 6.15% of large scale manufacturing GDP and 5.6% of export earnings in Pakistan. This sector, being labour intensive, employs more than 500,000 people in the country. The sector has tremendous potential for growth and exports. In case of Pakistan, the footwear industry which is 56% of total global leather trade is only 11% of Pakistan's leather trade and this gap can be filled to increase our exports. The Strategic Trade Policy Framework would endeavor to come up with a clear vision and road map in consultation with the major players of leather sector and Ministry of Industries. To address supply side constraints and to encourage leather sector regain its lost share, following measures have been initiated in the Trade Policy 2009-10.,

- Providing on the floor expert advisory / consultancy services to leather apparel manufacturers cum exporters.
- Matching grant to establish design studios or design centers in factories.
- Establishing R&D Centers in Karachi and Sialkot by Pakistan Leather Garments Manufacturers and Exporters Association for providing Research & Development support to Leather Garments & Leather Goods Exporters.
- Installation of flaying machines at district level slaughter houses.
- Sharing 25% financial cost of setting up of design centers and

labs in the individual tanneries.

- To provide matching grant for setting up of effluent treatment plants in individual tanneries.

### **c. Chemicals**

The chemical sector is one of the five highest growth sectors in the world, with global trade volumes approaching \$ 2 trillion. During 2008-09, Pakistan exported chemicals and chemical related products worth \$0.162 billion and its imports amounted to \$4.04 billion which is 12% of our total imports. The existing manufacturing capacity in Pakistan is rather small, both in level and scale. The productivity as well as research and development to improve chemical reactions, processes, molecular formation and beneficiation of locally available minerals remain low in Pakistan.

The domestic demand for chemical products locally has also been on the rise, particularly for fertilizer inputs, pesticides and plastics, inputs for use in packing, auto, electronics, house hold items, cables, pipes and fittings besides the high use of chemicals in the processing of textile, leather, carpets etc. However, the absence of a clear policy framework on the development of chemical sector to expand local manufacturing in high potential sub-sectors and gearing the sector as a major driver of exports have resulted into haphazard growth on short-term need basis. The Ministry of Commerce would closely work with the Ministry of Industries and other stakeholders to set benchmarks for productive capacity and value addition in comparison to global trends and other indicators of the sector with the aim of making this sector a major player in Pakistan's exports.

### **d. Pharmaceuticals**

Pakistan's pharmaceutical industry is relatively young in the international markets with an export turnover of over US\$ 93.6 million in 2008-09: up from \$89.44 million in 2007-08. This Industry has a large number of quality producers and many units are approved by regulatory authorities all over the world. Like domestic market, the exports of Pharmaceutical products have gone almost double during the last five years. The

pharmaceutical industry has the capability to double its exports over the next three years provided the institutional infrastructure is made more efficient by the corporatization of the regulatory bodies and introduction of new Drug Law with rationalization of the pricing policies to encourage limber investment and exports. The sector has responded well to the recent policy stimuli. The Ministry hopes to provide a strong facilitation to the sector to help our pharmaceutical sector benefit more from the new regional and global opportunities. In order to further facilitate this growing sector, following measures have been announced in the current Trade Policy;

- Support for hiring medical representatives abroad
- Support for registration of pharmaceutical products abroad
- Support for biocquivalence certification

#### **e. Meat and Meat Product**

Livestock sector accounts for 1.3% of Pakistan's GDP but the livestock based exports are negligible. Pakistan imported livestock and meat products worth \$803.14 million in the outgoing fiscal year. Globally, it is an important sector with actual volume of trade at around \$ 79 billion. Having a strong Livestock base, Pakistan can increase its global share meaningfully in a short span of time with a right policy mix. This would not only diversify Pakistan's exports and markets, it would help in rural development also. The government has undertaken a large number of initiatives to address the supply side constraints such as low reproductive efficiency of animals, limited scope of fattening programs, presence of trade related infectious diseases, lack of research on refinement of vaccines and disease diagnosis, poor management of public slaughter houses, inadequate processing and marketing of the by-products of slaughtered animals. The government has allowed duty-free import of dairy and livestock machinery to encourage the establishment of value added industry in the livestock sector. The STPF would link these programs with the export market and demands of international market, especially the fast growing Halal markets.

The Ministry realizes the potential of the Halal market and has undertaken

many initiatives leading to the establishment of Halal food production and certification systems in order to get maximum benefit out of promising future of world Halal food trade. As a key sector, the Ministry would try to quickly address labeling and packaging issues and would enhance the collaboration with other countries for making Pakistan the hub of Halal food in future. In the coming year, the Ministry will develop a comprehensive policy for the promotion of Halal products. Halal Products (Food & non-food) is an over trillion dollar market. Pakistan despite being a Muslim country is being left behind and one of the major reasons is lack of recognized Halal standards. Ministry of Science and Technology is entrusted with working out the standards and setting up a Halal Certification Board. Till the time the Halal Certification Board is setup, the government would subsidize the cost of certification by internationally recognized bodies by 50%.

#### **F. Agro-Processing and Dairy**

Pakistan has a large agricultural basis. Pakistan is a world ranked producer of cotton, wheat, rice, sugarcane and dates. Pakistan also has a reasonable potential of growing more horticultural products. A bigger focus on agro-processing has a huge poverty reduction potential also. The Ministry recognizes the potential which exists in the agro-processing and developing regional food supply chains and would take the necessary steps to tap this potential. The global food trade stands at more than \$ 361 billion. Pakistan's current share in this market is negligible. Good Agricultural practices are essential to ensure food safety both locally and in export markets and thereby a better acceptability; our agricultural sector is lacking recognized agricultural practices standards. PAKGAP (Pakistan Good Agricultural Practices) standards initially for five major horticultural exports (citrus, mango, dates, potato and onion) would be worked out by the Ministry of Science & Technology in consultation with Ministry of Food & Agriculture (MINFA) and implemented by MINFA in collaboration with Pakistan Horticulture Development & Export Board (PHDEB).

Pakistan is the 4th largest milk producing country in the world with dairy as one of the fastest growing sectors of the country. The milk economy represents around 25 % of the total value of the agriculture sector. Pakistan

has the potential of becoming future dairy exporter at the global level. The world dairy consumption is growing at around 2.0% per annum, with an estimated total trade of \$ 61 billion. China with an annual demand growth of 14%, along with South East Asia and Middle East & North are likely to be the future demand hubs. The current global dairy trade accounts for 7% of the total production, with 93% being consumed domestically. With the liberalization of trade in agriculture, the exports of dairy products are expected to grow very rapidly. For Pakistan, this is the time to prepare actively to gain from the post subsidy regime. The government, being aware of the opportunities in this sector, has already established Livestock and Dairy Development Board (LDDDB) to increase the pace of development in livestock industry. By according a high priority to the export of livestock based exports, the Strategic Trade Policy Framework would provide the much needed opportunities in the international market. Acknowledging the importance of the Agriculture sector in the economic growth of Pakistan, specific measures for this sector were announced in the Trade Policy 2008-09, which would enable agriculture to contribute effectively to boost exports of Pakistan. These include;

- Food exports would be supported initially by reimbursing ports of Pakistan. These include; R&D cost @ 6% of the exports.
- To reduce the possibilities of aflatoxin infestation, matching grants would be given to farmers / rice millers for purchase of paddy harvesters and paddy dryers.
- The horticultural exporters would be given markup subsidy on loans for establishing cool chain processes @8% or 50% of the markup, whichever is lower.

#### **g. Minerals**

The contribution of Minerals to GDP in Pakistan stands at 2.4 % which is far below the actual potential. Keeping in view favourable geological environment and large number of mineral resources in the country, the Government is fully committed to making the mineral sector as one of the most dynamic sectors for the country. Our Mineral sector has not yet been

fully exploited to give a boost to local metals and chemicals industry or exports as Pakistan has moved rather slowly up the value addition chain. Mineral sector is one of major export sectors globally, with an export volume of more than \$ 2 trillion. The sector has however, attracted significant foreign direct investment recently. There is an immense potential to significantly increase the value added exports of mineral based products. The Ministry of Commerce would join hands with the Ministry of Industry, Petroleum & Natural Resources and Board of Investment to devise effective ways to transform Pakistan's Mineral sector as a major foreign exchange earner for the country and supplier of raw materials and intermediate goods in the local market.

#### **h. Light Engineering Goods and Machinery**

Engineering sector has been getting government's attention since many years due to its big potential to increase Pakistan's share of value added manufactured goods with an increasing level of sophistication in the global market. Though our exports registered an increase of 26% during 2008-09 as compared to the previous year, our base remains very low and narrow. Engineering sector is one of the most important export sectors in the world with the trade volumes of more than \$ 3.5 trillion. In order to get a significant share of this market, Pakistan needs to increase the technology intensity in production and then aggressively market its light engineering goods and machinery in suitable markets. The Ministry realizes that this will require concerted efforts, with the help of Ministries of Industries, Information Technology, Science and Technology, Higher Education Commission and other establishments of technology and innovation creation, in gearing up our universities, poly-techniques and firms for the kind of manufacturing prowess and design capabilities required by the world market. The Engineering Development Board has already initiated sector development programs for various engineering sub-sectors with the objective to make them a part of international supply chain. The Ministry of Commerce would leverage these initiatives by supporting the light engineering sectors to export more in high paying markets. Ministry of

Commerce is creating Fund for product development & marketing of light engineering goods in order to increase the sophistication level of the sector and realize true potential of this sector. Engineering sector has performed significantly in the last few years. In order to build upon the gains achieved, STPF stipulates the following measures for the engineering sector.,

- In order to increase the sophistication level & realize true potential of this sector, a special fund of Rs 2.5 billion would be created for product development & marketing for light engineering sector.
- Export of Motorcycles was facilitated through R&D support of US\$ 50 (Rupee Equivalent)/ Unit in the last years Trade Policy, this support would be continued till June 2010.
- Safety Standards Certification by Underwriters Laboratories (UL) increases the level of acceptability of manufactured products particularly domestic electrical appliances in international markets. To encourage the exporters 50% cost of UL certification would be subsidized.

#### **i. Gemstone and Jewellery**

The global trade in gems and jewellery is estimated at \$84.4 billion out of which Pakistan's exports in 2008-09 accounted for only \$0.28 billion. This sector has enormous potential as Pakistan has been gifted with abundant resources of several precious and semi-precious gemstones such as emeralds, pink and golden topaz and aquamarine etc. But the sector continues having problems such as antiquated mining techniques, an unskilled workforce and a lack of product diversification to cater to the needs of major markets such as EU and US. There is also lack of branding & recognition of Pakistani Gems & Jewellery industry as a quality manufacturing centre in the international market. The government has taken many important steps to overcome the supply side constraints as well as to enhance the export capacity. As a focus sector, the Ministry of Commerce would devise a medium term strategy to boost the exports of Gems and Jewellery. To provide relief for the industry, it has been decided that import duty and Sales Tax on import of pearls of all types, would be abolished.



## **j. Services**

The services sector, accounting for around 60% of GDP has been an important contributor to Pakistan's economic growth over the past five years as it grew at an average of 6.6 percent annually since 2003-04. In terms of external trade however, Pakistan has continued facing deficit which stood at \$3.2 billion for the first 10 months of 2008-09. Pakistan's share of the Services export globally was 0.08% in 2008. Pakistan needs to undertake concerted efforts to give a push to the export of Services.

The Ministry of Commerce has set up a National Steering Committee to devise a long term strategy for significantly improving Pakistan's export of services. Recently established Services Export Development Cell (SEDC) at TDAP has identified the Financial Services, Construction & Architectural Services, Professional Services, Health & Medical Services and Information Technology as priority sectors. SEDC is working with all the stakeholders to address core issues and devise comprehensive strategies for each sector.

The Ministry is also addressing the issues related to the generation and organization of Services' trade related statistics with the help of Federal Bureau of Statistics, State Bank of Pakistan, Federal Board of Revenue and other stakeholders in order to base government's promotional strategies on scientific grounds.

Our FTAs with China and Malaysia include Services Sector as well. The Ministry of Commerce would initiate special programs to promote the export of Services in these and other markets and would work with relevant Ministries to develop and implement suitable support programs for the priority sectors.

To help Services sector grow and expand, a Services Export Development Fund is being established to provide assistance in the form of reimbursable grants to Pakistan Services exporters for tendering or negotiating for international projects and for conducting pre-feasibility or feasibility studies for international projects.

## SECTION IV:

### **MARKET ACCESS AND TRADE DIPLOMACY**

#### **a. Market Access Initiatives**

In order to boost our exports in these difficult times, Pakistan needs an early market access especially in the US and Europe, which are currently major export destinations of our products. The Government of Pakistan is actively engaged with the US and European Union on this account. The establishment of Re-construction Opportunity Zones (ROZs) will provide facility of exports to US at zero duty. After the finalizations of the sites of Zones, the Ministry would set up a dedicated Organization with functional linkages with the Provincial Governments to ensure an efficient utilization of the facilities and enforce the compliance issues.

For market access in Europe Union, we are hoping to have bilateral FTA, but in the short run, the government would try to get special dispensation under the EU-GSP Scheme. At the bilateral level, we have significant market access in China through a Comprehensive FTA including goods, services, investment and economic cooperation. FTA Agreements with Malaysia and Sri Lanka also provide substantial market access to Pakistan. Ministry of Commerce is taking the necessary measures to increase and diversify Pakistan's exports to China, Malaysia and Sri Lanka.

The Ministry is fully aware of the opportunities offered by the Regional Trade Agreements (RTAs) such as SAFTA and ECOTA of which Pakistan is a member. Ministry of Commerce would continue trying to help these RTAs become dynamic players in the international market. Pakistan is also in negotiation with ASEAN and block of GCC countries to expand its trade with these important trading blocks. The Strategic Trade Policy Framework 2009-12 aims to increase Pakistan's regional trade from 17 % to 25 %. The Ministry realizes that more should be done to promote the bilateral and regional FTAs which Pakistan has initiated. The Ministry would develop a Communication Strategy for each of the new initiatives to

ensure bigger participation by the private sector in making these FTAs work.

#### b. Maximizing Gains from Multilateralism

Pakistan is actively participating in Doha Development Agenda (DDA) negotiations. With its key interests in NAMA, Agriculture, Services, addressing Non-Tariff Barriers and measures relating to trade facilitation, Pakistan is trying for an equitable outcome of DDA. The Ministry realizes that the reduction of tariff alone, however, is not enough to boost exports and we would continue trying to address the issues such as Non-tariff Barriers (NTBs), Compliance Issues such as labour & environment and technical barriers to trade. Trade and Climate Policy are becoming increasingly entangled. A failure to agree on how to address global warming could undermine half a century of opening up of world trade as there is a possibility that countries or buyers start imposing penalties on countries that do not accept limits on carbon emissions or an "equalization" levy on imports from countries that have not agreed to cut emissions. Pakistan is undertaking concrete measures for the greening of the economy and would see the climate change talks succeed but would resist any effort to misuse the climate change concerns as an NTB or TBT.

The successful conclusion of DDA can provide a window of opportunity for Pakistan, if we could see full elimination of export subsidies and substantial reduction in domestic trade distorting subsidies with caps on major items such as cotton, wheat and rice and also open hitherto untapped areas such as dairy, horticulture and tropical products, provided we expand our productive capabilities efficiently.

Pakistan would continue participating actively in the negotiations on the issues, e.g. Intellectual Property Rights, Strengthening of Geographical Indicators. Dispute Settlement Procedures of the WTO and revision of Agreement on Trade Defense Laws and Rules and WTO Reforms adopting the best effort approach to protect the national interest.

In anticipation of the completion of Doha Development Agenda negotiations, the Ministry has started the necessary analytical work to develop appropriate policy responses keeping in view different possible scenarios. The Ministry would also deploy sufficient, high quality human and institutional resources to enable Pakistan to benefit from the conclusion of the Round.

The Ministry realizes that the multilateral system and global trade will keep on evolving even after the conclusion of DDA. With the elimination of tariff peaks and equalization of global tariffs by the developed and developing countries, at different levels, there are likely to be many new issues for deliberations. Pakistan would continue to strive to bring more equity, transparency and predictability in the international trade.

### **c. Enhancing Regional Trade**

Pakistan has land borders with China, Afghanistan, Iran and India. These countries are our natural trading partners. In addition to China, which now has become a major international player in trade and investment, the other neighboring countries are also registering significant growth. We are also including the Central Asian States and Gulf Cooperation Council countries in our newly established definition of regional partners and would strive to have stronger trade links with all our regional partners in a bilateral or plurilateral context.

During the last 20 years, the direction of trade has significantly changed. This region has in fact become a big import destination. The regional trade, due to the benefits of proximity in the short run and with the possibility of developing regional supply chains and investment flows, has become a big opportunity for any exporting country. Our region at present is the least integrated region in the world. Pakistan's exports to the region at present stand at 17 %. Promoting regional trade to the mutual benefit of the regional trade partners is an important objective of the Strategic Trade Policy Framework 2009-12. It is hoped that Pakistan's exports to the region would increase at least to 25 %. Pakistan would engage its regional partner for better market access, trade facilitation and trade promotion in order to give a big boost to the regional trade.

The government realizes that sustainable political and economic relations with India are important to leverage the benefits of intra-regional trade and hope that a successful completion of the composite dialogue would significantly expand and deepen these relations. Transit Trade Agreement with Afghanistan is of immense importance for Pakistan for smooth, legal and quick flow of goods across border and to have market access in the Central Asian States so that this trade is mutually beneficial to all the parties. It is hoped that the negotiations for the new Agreement will be concluded by the end of this year by addressing the concerns of stakeholders of both countries.

## **SECTION V:**

### **GOVERNANCE AND MANAGEMENT OF STRATEGIC TRADE POLICY FRAMEWORK**

The success of the Strategic Trade Policy Framework in significantly enhancing export competitiveness of Pakistan would largely depend upon the quality of governance and management structures deployed to implement it by different stakeholders. Given the kind of challenges Pakistan is facing, the state needs to become a more active to secure competitiveness development and should earnestly deploy maximum political and administrative resources to the task.

The Ministry realizes that half the difficulty in making STPF a success lies in the effective implementation. The government realizes that previous trade policies and development strategies and initiatives had mixed results due to the implementation issues-such as:

- Delay in implementation and attendant problems
- Ineffective implementation
- Weak implementation coordination within the government
- Poor implementation coordination with private sector
- Dispersal of responsibilities for enhancing, growth and export competitiveness
- Absence of a mechanism for monitoring and resolving policy and implementation issues
- Lack of a systematic, scientific evaluation of the development interventions and of policy choices

The Ministry hopes to avoid the above pitfalls through a carefully devised Implementation strategy of STPF 2009-12. The principle elements of this Implementation Strategy would be as follows:

### **a. Enhancing Institutional Efficiencies**

effectively implement the STPF, it is essential for state institutions to be powerful and more importantly well placed to take crucial decisions. Unfortunately, we are experiencing a situation where many institutions are beset with institutional decay. More often than not, the anticipated results specially the ones dependent on policy coordination and policy overlaps/interdependencies in a multi-stakeholder implementation context are compromised. Ministry realizes that the management of STPF would need to be supported by substantial institutional strength of respective stakeholders. In addition to that, there would be a need for closer coordination among these institutions for timely implementation and evaluation of sectoral strategies. The Ministry of Commerce's role in this regard becomes more central than it has previously been as all the stakeholders expect it to take the lead in pushing the agenda for export competitiveness. The Ministry hopes, with full political support, it would be able to work out coherent and all-inclusive strategies that address the issues identified in STPF for speedy redressal with the help of other Ministries and Departments.

The Ministry is aware that it needs a well functioning institutional architecture within the Ministry of Commerce for an effective implementation of Strategic Trade Policy Framework 2009-12, with a strong leadership at the top. The Ministry would introduce the required institutional reforms within the Ministry and its affiliates such Trade Development Authority of Pakistan, National Tariff Commission, Directorate General of Trade Organizations etc. for establishing clear benchmarks for their performance.

The Trade Officers Abroad play an important role in bringing the exporters and importers together, bridging the information gap between the supply and demand, analysis of competitors export strategies, image building of Pakistani export products and providing general facilitation to Pakistan's export enhancement. Where there is a need to open new Trade offices in emerging markets, there is need to strengthen and utilize the existing trade offices better for the protection and promotion of Pakistan's commercial

interest abroad. Our Trade Officers would play an active role in implementing the STPF 2009-12 and would be evaluated on the basis of their contribution thereof.

#### **h. Steering and Coordination Arrangements**

The Ministry would employ the modern *logical frameworks* to implement and evaluate different interventions and initiatives of the STPF and would be establishing different Implementation Management Units as follows:

##### *IMU I: Policy/Trade Facilitation Implementation Unit*

This Unit would be housed in the Ministry of Commerce and would ensure the timely implementation of the procedural, legal, statutory changes, amendments and modifications by relevant organizations.

##### *IMU II: Trade Policy Development Initiatives Management Units*

These Units would be housed in the respective implementers' Organization/Ministry and would be entrusted with an efficient implementation of the development initiatives.

##### *IMU III: Trade Policy Development Initiatives' Coordination Unit*

This Unit would be based in the Ministry of Commerce and would coordinate the activities of IMU I & II and monitor the progress.

#### **c. Financing the Export Competitiveness Development**

A chronic problem in Pakistan has been the lack of public and private investment to realize the desired policy impacts. The Planning Commission had conceived the investment requirement of \$60 to \$ 65 billion in early 2007 to enhance the share of manufacturing, with a higher value added content, to 23 % in 2013 however the necessary investments in infrastructure and in the provision of sectoral public goods could not be materialized. Where there is a need of a national competitiveness development strategy and structure, there is a need of financing the necessary programs and projects to implement the proposed strategies. It is through a quantitative and qualitative tracking of the results of these strategies and expenditures involved that the government would be able to decide about more judicious allocation of resources with a view to enhance the competitiveness. Without such a system, we would not be able to come



over the challenge of the "Dispersal of responsibilities for enhancing growth and export competitiveness". The Ministry is hopeful that the Objectives of the Strategic Trade Policy Framework 2009-12 and the resultant investment requirements, would be mainstreamed with the forthcoming Five Year Development Plan to ensure a sustainable funding for the structural transformation of Pakistan economy.

#### **d. Reorienting Relationship Between Government and Industry**

A successful implementation of Strategic Trade Policy Framework hinges upon an appreciation of central role being played by STPF in enhancing growth and export competitiveness by all the stakeholders. With STPF, finalized after an extensive consultation with all the stakeholders, the government is embarking upon a new era of cooperative action with the Industry. The Ministry hopes that the Industry would be able to organize itself more effectively by cementing new solidarities transcending narrow domains of sectors and regional representations. A weak implementation capacity of the intermediary business support organizations has been a major hurdle in the realization of common objectives such as skilling, productivity enhancement, scaling etc. STPF has been prepared in the wake of a realization that the falling competitiveness of Pakistan's exports is a national challenge, which can inflict huge damage to the business and people in Pakistan if our response is not befitting. The Ministry would lead from the front in shaping much more effective Public-Private dialogue in the realization of the Objectives of the STPF.

#### **e. Performance Evaluation of STPF 2009-12**

A policy measure, initiative or incentive inscribed in any Trade Policy work through an implementation mechanism peculiar to the nature and working of the specific intervention. The Ministry would deploy sufficient resources to develop effective implementation strategies for each of the major interventions with the first quarter with the help of relevant stakeholders. The Ministry would also encourage the relevant Implement Management Units to establish/produce baseline data to facilitate the

evaluation of the output of a specific measure and its relevance and usefulness in contributing to the realization of broad objectives of Strategic Trade Policy Framework 2009-12. With the help of this data, Pakistan Institute of Trade And Development (PTAD), an independent policy think tank of the government of Pakistan on international trade, would develop and carry out credible monitoring and evaluation plans for each of the implementation mechanisms adopted by respective IMUs. PITAD would also undertake a systematic evaluation of the impact of Strategic Trade Policy Framework 2009-12 on the trade performance of Pakistan with a view to enhance the effectiveness of different trade policy interventions, suggest course corrections and lay the scientific foundations for the preparatory work for the next.

#### **f. Export Targets For 2009-12**

On the basis of an extensive consultative process, the Ministry believes there is a consensus among all the stakeholders in Pakistan's international trade that the country's exports can become an engine of growth and prosperity in Pakistan, if the relevant institutions, both in public and private sector implement a holistic strategy to enhance competitiveness of exports. However, the growth during 2009-10 would remain rather sluggish partly due to slowdown in global demand and also due to the fact that all the programs and measures of STPF would take a brief time lag before coming into full force. The Ministry therefore has set the export growth target of 6 % for 2009-10 and 10 % & 13 % for each of the successive years.

The Ministry believes that setting the export targets becomes rather vacuous if the intermediate indicators are not identified, monitored and improved. In case of the export growth, the Enabling Trade Index indicators being used by World Economic Forum can be useful starting point for STPF. Pakistan has slid from 92 to 101 position if one is to use the conventional indicators such as Domestic and foreign market access, Efficiency of customs administration, Efficiency of import-export procedure, Transparency of border administration, Availability and quality of transport, Infrastructure, Availability and quality of transport services, Availability and use of ICTs, Regulatory environment and Physical

security. The Ministry anticipates that Pakistan can be brought to a position below 80 with the concerted and coordinated action of all the principle stakeholders. As per the latest available Study, Pakistan has come down from 55 to 41st place as far as the level of sophistication of its exports is concerned. The Ministry of Commerce would soon develop a composite Pakistan Export Competitiveness Index, factoring Pakistan specific supply and demand side indicators to benchmark the progress in the improvements in Pakistan's export competitiveness in different sectors and indicators. Such an indigenous index based on rigorous quantitative and scientific specifications should be able to update all the stakeholders in Pakistan's export competitiveness on their performance every year with a view to enhance the effectiveness of policy and development interventions.

## **Trade Policy Initiatives 2009-12**

The measures to achieve the above objectives are proposed in the following paragraphs; the cumulative estimated expenditure spread over three years is Rs. 35.22 billion is expected to be met from Export Investment Support Fund.

### **1.1 Addressing Supply Side Constraints**

#### **1.1.1 Financing at Reasonable Markup**

Business need short to medium term certainty in the interest rate for investment. Currently, there is no policy instrument provided by the government or private sector for providing finance at fixed interest rates for a short to medium term

2. A fund would be created to hedge markup rate hikes. The fund shall be managed by an organization (TDAP/ NIC) of the Ministry of Commerce and shall be financed from EISF.

#### **1.1.2 Reliability of Electricity Supply**

The electricity shortage is an irrefutable fact and is adversely affecting industrial productivity. While little can be done, in short term, to increase the quantum of supply there is possibility for introducing an element of predictability of power supply.

3. Electricity Distribution Companies (DISCOs) being bodies corporate should enter into agreements with clusters of industries whereby electricity is supplied at mutually agreed times. The agreements would have punitive and compensation legally enforceable clauses; the compensation could be in the form of electricity charges credit etc. and would be underwritten by the government.

#### **1.1.3 Insurance Cover for Visiting Buyers**

Purchasers, inspectors and sourcing agents of overseas buyers are reluctant to travel to Pakistan and the exporters have to meet them in other countries.

This increases cost of doing business. It has been learnt that apart from travel advisories that stop the purchasers/importers from coming to Pakistan but also the fact that the insurance companies refuse to cover the period of stay in Pakistan on usual rate of premium.

4. A scheme would be launched for compensating the buyers for additional premium paid/payable for period of stay in Pakistan. The scheme would be funded from EISF and managed by NIC.

## **1.2 Trade Facilitation**

5. The following initiatives taken in previous policies would be continued.

### **1.2.1 Facilitating Presence in International Markets**

To encourage local firms to have international presence and thereby increase the profitability following initiatives were taken in previous trade policies:

- a. Support for Opening Exporters Offices Abroad
  - b. Support for Opening Retail Sales Outlets Abroad
6. Above initiatives would be continued throughout the period of STPF 2009-12.

### **1.2.2 Warehousing Facility**

To make inroads into non-traditional markets and / or to introduce non-traditional products in traditional markets a warehouse scheme was launched and a warehouse was established in Kenya. The changing patterns of trade require direct to store deliveries and thereby need of warehouse even in traditional markets.

7. The warehousing scheme would be continued and its scope expanded to include traditional markets and traditional products.

### 1.2.3 Support for Compliance Certification

In the previous years government announced 50% subsidy for various quality, environmental and social certifications. To encourage further, the subsidy was progressively increased to 100% of the cost of certification when a manufacturing units gets four of the specified certifications viz. (i) ISO 9000, (ii) ISO 140001, (iii) OHSAS 18001, (iv) SA 8000, (v) WRAP, (vi) EKOTEX, (vii) BSCI, (viii) BRC

8. The initiatives would be continued in the Trade Policy 2009 and list of certifications would be expanded by TDAP in consultation with the Industry.

## 1.3 **Sector Specific - New Initiatives**

### 1.3.1 Compensating Inland Freight Charges

Extra cost on inland transportation erodes export competitiveness of a range of developmental products.

9. A scheme would be launched to compensate inland freight cost to exporters of cement, light engineering, leather garments, furniture, soda ash, hydrogen peroxide, caustic soda, sanitary wares including tiles, finished marble/ granite/ onyx products.

### 1.3.2 Technology, Skill and Management Up-gradation Fund for Value Added Products

All final use products do require continuous research and development for enhancing competitiveness either by technology up-gradation, skill development or by improved management systems. A fund dedicated to support these activities is required.

10. Technology, Skill and Management Up-gradation fund would be established.

### 1.3.3 Brand Promotion Support for Surgical Instruments, Sports goods & Cutlery

The manufacturing in these sectors is largely done under the brands of foreign companies, and that result in lower prices for manufacturers in these sectors.

11. It has been decided that surgical instruments\*, sports goods & cutlery sector would be granted 25% subsidy on brand promotional expenses like advertisement in recognized trade journals, certification cost.

\* Term Surgical includes surgical. medical, dental, veterinary, beauty care (manicure/ pedicure etc.) and like instruments

### 1.3.4 Product Development and Marketing Fund for Light Engineering

Engineering sector is dynamic and resilient but it is fragmented. This sector has shown promising growth during 2008-09 with an export growth of 32.1%.

12. In order to increase the sophistication level & realize true potential of this sector, a special fund would be created for product development & marketing for light engineering sector.

### 1.3.5 Enhancing Sophistication in Surgical Instruments Center of Excellence

Shortage of well-trained skilled manpower is impeding growth of surgical instruments manufacturing industry.

13. Ministry of Industries and Production would establish a center of excellence for catering to the training, designing, research & development needs of surgical instruments\* sector at Sialkot.

\* Term Surgical includes surgical, medical, dental, veterinary, beauty care (manicure/pedicure etc.) and like instruments

### 1.3.6 Enhancing Sophistication in Leather Apparel

Leather apparel industry needs to adapt to changing trends for which they need expert input for improving quality and efficiency.

14. Leather apparel exporters would be provided on the floor expert advisory / consultancy and matching grant to establish design studios or design centers in their factories.

15. R&D Centers to be established in Karachi and Sialkot by PLGMEA for providing Research & Development support to Leather Garments & Leather Goods Exporters would be funded.

#### 1.3.7 Freight Subsidy on Export of Live Sea Food

Live sea food fetch very high prices in international markets as compared to frozen products, minimum price ratio is 1.10. In fact, maximum value addition is through export of live sea food. This product offers immense potential in export markets.

16. A freight subsidy @ 25% freight subsidy would be extended if live seafood products are exported by air. This would also compensate exporters to overcome losses incurred due to mortality.

#### 1.3.8 Support on Export of Processed Food

Raw and semi-processed agricultural products being currently exported can get higher values if exported as processed food. However, TBTs on processed food require compliance to more sophisticated standards and thereby higher cost of production

17. Processed food exports would be supported initially by reimbursing R&D cost @ 6% of the exports; the quantum & mode of support to be adjusted after a detailed study but not later than May 2010.

#### 1.3.9 Improving Supply Chain of Leather Sector Exports Flaying Machines

It is estimated that a minimum of 25% hides and skins are rendered useless



from butcher cuts. There is an imminent need to introduce flaying machines in abattoirs but local governments have limited resources to install and run flaying machines.

18. Matching grants to district governments for installing flaying machines would be provided.

#### **1.3.10 Improving Supply Chain of Leather Sector Exports Finished Leather**

Finished leather is one of the major export products & an intermediate product in which substantial value addition can be achieved by adopting modern production processes and creating trendy finishes. There is a need to encourage tanneries to upgrade production and designing facilities and to facilitate them for complying with international standards.

19. For enhancing competitiveness of leather sector following measures would be implemented:-
- a. Sharing 25% financial cost of setting up of design centers and labs in the individual tanneries.
  - b. Matching grant for setting up of effluent treatment plants in individual tanneries.

#### **1.3.11 Services Export Development Fund**

Services sector has immense potential for earning foreign exchange however high pre-project costs are a deterrent to its expansion. Support to Services Sector in tendering process and preparing prefeasibility / feasibility studies shall be instrumental in helping the sector to achieve its potential.

20. A Services Export Development Fund would be established to provide assistance in the form of reimbursable grants, to Pakistan service exporters for tendering or negotiating for international projects and for conducting pre-feasibility or feasibility studies for international projects.

#### **1.3.12 Halal Products - Cost sharing of Moody Certification**

Halal Products (Food & non-food) is an over trillion dollar market.

Pakistan despite being a Muslim country is being left behind and one of the major reasons is lack of recognized halal standards. MoST is charged with working out the standards and setting up a Halal Certification Board. Currently Moody is issuing the certificate that adds to cost.

21. Till the Halal Certification Board is setup, the cost of Moody Certification would be subsidized by 50%.

#### **1.13.13 Compliance with Safety Standards**

Safety Standards Certification by Underwriters Laboratories (UL) increases the level of acceptability of manufactured products particularly domestic electrical appliances in international markets.

22. To encourage the exporters 50% cost of UL certification would be subsidized.

### **1.4 Sector Specific - Continuing Initiatives**

#### **1.4.1 Cluster Development**

It was decided in last year's Trade Policy that Trade Development Authority of Pakistan (TDAP) will establish II new clusters such as surgical/sports wear/gloves/leather etc to facilitate small units.

23. Since export clusters are essential for development promotion of non-traditional products, STPF would continue with this initiative in current trade policy to gain maximum benefit from the establishment of these clusters.

#### **1.4.2 Support on Export of Motorcycles**

Export of Motorcycles was facilitated through R&D support of US\$ 50 (Rupee Equivalent)/ Unit. However, the disbursement was started in end of FY 2008-09.

24. The support of Rupee equivalent of US\$ 50/unit on export of motorcycles would be continued till June 2010.

#### 1.4.3 Pharmaceutical

Pharmaceutical sector was given following incentives in previous years:

- a. Support for hiring medical representatives abroad
- h. Support for registration of pharmaceutical products abroad
- c. Support for bioequivalence certification

25. The sector has responded well but is still in need on support therefore the above initiatives would be continued throughout the period of STPF 2009-12.

#### 1.4.4 Matching Grant for Paddy Harvesters and Paddy Dryers

A large number of export consignments of rice are being rejected due to atlatoxin infestation; a condition attributed to high moisture contents of paddy. The possibilities of atlatoxin infestation can be minimized by introducing paddy harvesters and paddy dryers whom the farmers are reluctant to procure due to high cost. Last year's trade policy envisaged exploring possibility of providing matching grant from Agribusiness Support Fund that could not materialize due to technical reasons.

26. Rice farmers / rice millers would be given matching grants from EISF for purchase of paddy harvesters and paddy dryers.

#### 1.4.5 Zero Rating of Exports and Adhoc Relief @1%

Exporters are forced to export indirect taxes, estimated to be around 9% of the cost of production. Trade Policy 2008 proposed a study to calculate the burden of these taxes and pending that to give interim relief to fourteen sectors in shape of additional duty drawback (&1% of export value. Though the proposal was approved by the Cabinet, FBR did not allow additional duty drawback.

27. The exports would be completely zero rated and, till such time, the decision to give additional duty drawback to specified sectors would be implemented as an interim relief measure in Trade Policy 2009; the sectors are tents & canvas, electric machinery, carpets, rugs and mats, sports goods, footwear, surgical/ medical/ veterinary/ beauty care instruments, cutlery, onyx products, electric fans, furniture, auto parts, handicrafts, jewelry and pharmaceuticals.

#### 1.4.6 Assistance to Horticulture Sector

It was decided in trade policy 2008-09 that a farm to port cool chain will be established, till completion of cool chain, support for cool chain and cold storages for horticulture would be given at 8% or 50% of the markup, whichever is lower.

28. It has been decided that this facility for horticulture would be continued.

### 1.5 **Process Re-engineering**

#### 1.5.1 Reducing Cost of Doing Business

##### 1.5.1.1 *Import of Used Drilling Rigs*

Oil and gas and petroleum sector companies are allowed import of second hand plant and machinery equipment required for their project in Pakistan subject to pre-shipment certification to the effect that such plant, machinery and equipment are in good working condition and are not older than 10 years.

29. Since drilling rigs usually have a useful life of around 20 years it has been decided that the age limit for them would be enhanced to 20 years subject to PSI certification.

##### 1.5.1.2 *Import of Specialized Machinery*

There are various restrictions on import of specialized machinery and transport equipment e.g. Concrete Transit Lorries, Concrete Pumps, Crain

Lorries, Concrete Placing Trucks, Dump Trucks, Waste Disposal Trucks, cement bulkers and Prime Movers. These conditions include age restrictions, actual use etc.

30. Import of specialized machinery/ transport equipment by actual users (construction companies etc.) in used condition irrespective of the age would be allowed provided they fulfill emission standards and have sufficient productive life.

#### **1.5.1.3 Trade-in of Machinery**

There is a possibility for Industrial Users to trade-in new, refurbished or upgraded machinery with their obsolete machinery. Current import and export regimes do not provide for trade-ins whereas if allowed it could reduce the expenditure on BMR.

31. Industrial importers would be allowed to import new, refurbished and upgraded machinery on the basis of trade-in with their old, obsolete machinery. Likewise export of their old/obsolete machinery for trade in with new, refurbished or upgraded machinery would also be allowed.

#### **1.5.1.4 Advance Remittance for Expeditious Imports**

State Bank of Pakistan has discontinued the facility to remit US\$ 10,000 per invoice, as advance payment, for import of spare parts, consumables/ raw materials etc. The discontinuation of the facility has increased the cost and time to effect urgent imports.

32. Facility to remit US\$ 10,000 per invoice, as advance payment, for import of spare parts, consumables/ raw materials etc would be restored by State Bank of Pakistan

#### **1.5.1.5 Waiver of Size Restrictions on Import of Secondary Quality Iron & Steel Plates/ Sheets/ Coils**

Import of secondary quality iron and steel sheets/plates / coils is allowed provided the sizes are over 48" (length) x 20" (width). The size restriction is irrational and difficult to implement. The industrial users face difficulties in getting clearance of unsorted scrap which adds to cost of doing business.

33. Minimum size restrictions on import of secondary quality iron and steel sheets/plates / coils would be waived off.

#### 1.5.2 Sector Specific

##### 1.5.2.1 *Gems & Jewelry Sector*

To promote Gems and Jewelry sector, the Cabinet in Trade Policy 2008, approved waiver of customs duties and sales tax on import of Gold, Diamonds, Silver, Platinum, Palladium and precious stones. The waiver was not extended to pearls and other synthetic or reconstructed precious or semi precious stones though these are increasingly being used in jewelry production. Further FBR didn't comprehensively implement the decision.

34. Natural pearls and other synthetic or reconstructed precious or semi precious stones would be exempted from customs duty and sales tax.

##### 1.5.2.2 *Pharmaceuticals*

Marketing of pharmaceutical products involve number of complexities in the international territory including need for extensive sampling at product launching stage.

35. Limit for physicians' samples would be enhanced to 20% (current limit 10%) at the time of launch with first shipment

##### 1.5.2.3 *Special EOU Status to Engineering Units*

Currently, units that export 100% of their production enjoy the status of Export Oriented Units and the benefits thereof. Since, engineering industry, particularly auto motive parts manufacturing industry has vast export potential but cannot export all of its production in initial stages it needs special treatment.

36. Engineering units would be allowed EOU facility on export of 50% of their production for the first three years. After that engineering units would be allowed this facility on export of 80% of their production.

### **1.5.3 Export Related**

#### **1.5.3.1 *Export of Edible Oil in Bulk***

At present export of edible oil from Pakistan is allowed in retail packs. The permission for export in Bulk would be allowed. There have been export demands for domestic edible oils like sun flower, canola and cotton seed.

37. Export in bulk of these oils (sun flower, canola and cotton seed) would be allowed.

#### **1.5.3.2 *Export of Pulses***

Currently exports of all types of pulses are banned due to domestic supply reasons. There is a growing international demand for this item. Opportunities exist for exporting pulses obtained on processing of imported inputs.

38. Exports of pulses obtained on processing of imported inputs would be allowed subject to necessary safe guards against export of indigenous pulses.

#### **1.5.3.3 *Enactment of GI Law***

Absence of sui generic law on Geographical Indication (G.I) has exposed Pakistani G.I products particularly Basmati rice to infringements. The draft G.I law is under preparation.

39. G.I law may be enacted on fast track basis and Trade Development Authority of Pakistan (TDAP) would be given the mandate to apply for and to hold G.I registration of Pakistani products.

### **1.5.4 Import Related - Regulatory**

#### **1.5.4.1 *Controlling Import of Poppy Seeds***

Presently there is no restriction on import of Poppy seeds as far as the origin is concerned. Single convention binds the signatories to import poppy

seeds only from the countries where it is legally produced.

40. In view of the international commitments the source of import of opium poppy seeds would be restricted to the countries where it is legally produced.

#### ***1.5.4.2 Controlling Import of Scrap/Waste Plastics***

Presently import of waste, parings and scrap of polyethylene and polypropylene is restricted to industrial consumers while import of other plastics is allowed on commercial basis.

41. To regulate import of such scrap, import of all types of plastic scrap would be allowed to industrial consumers only and strictly in accordance with the Provisions of the Basel Convention.

#### ***1.5.4.3 Import of Used Computer Components***

At present old and used computers and peripherals thereof are freely importable but the import of used components (RAM, Casing, Motherboard, Processors etc) is banned, thereby depriving the low income strata of computer use.

42. In order to encourage use of computers by low income segment of population import of old & used computer components would be allowed.

#### ***1.5.4.4 Restricting Import of Used CRT Monitors***

Second hand Cathode Ray Tubes (CRT) monitors are being imported and used as televisions thereby posing a threat to local television industry; excessive import of first world's e-waste is also a threat to the environment.

43. Import of CRT monitors would be disallowed unless imported along with used computers.



#### **1.5.4.5      *Protecting Local Vaccine Producers***

Local manufacturing of vaccines is of strategic importance and now local companies have started venturing into this high tech segment. Import of vaccines from India is a discouraging factor.

44. It has been decided that to encourage local production of vaccines, import of vaccines from India would be allowed on the recommendation of Ministry of Health and removed from the list of importable items from India allowed last year.

#### **1.5.5   Import Facilitation**

##### **1.5.5.1      *Import of Donated Ambulances***

Only such used ambulances (not more than 15 years old) that are donated by "reputable organizations" are allowed for imports by charitable organization/ trusts/ hospitals.

45. It has been decided that import of used ambulances that fulfill certifiable standards and have minimum 10 years of useful life would be allowed when donated by any organization / individual to a charitable or nonprofit organization, trust or hospital.

##### **1.5.5.2      *Disabled Persons Import of Motorized Wheel Chairs***

Secondhand / used motorized wheel chairs are presently importable only by charitable institutions and hospitals whereas actual users cannot do so.

46. To facilitate disabled persons, import of one Secondhand / used duty free motorized wheel chair would be allowed to actual users.

##### **1.5.5.3      *Disabled Persons Import of Duty Free Cars***

Disabled persons are allowed waiver of import duty which is in excess of 10% on CKD kits that are imported for assembling of car for them. Restricting disabled persons to use locally assembled cars limits the choice

to few makes; there have been persistent complaints of non-availability of customized vehicles among the local makes. Previously duty free import of customized cars by disabled persons was allowed.

47. To facilitate disabled persons to actively participate in economic activity, the facility to import duty free customized cars, not above 1350cc of engine capacity, would be allowed.

#### **1.5.6 Import Related - Liberalization**

##### ***1.5.6.1 Transfer of Residence (TR) Rules Amendment***

In case a passenger who brings/imports vehicle under TR scheme dies before the issuance of TR, there is no provision in Import Policy Order for release of such vehicle.

48. Vehicle imported by a overseas Pakistani, under TR rules, would be released to legal heir(s) in case of his/ her death.